



## **CITY OF HAYWARD**

### **AGENDA REPORT**

AGENDA DATE 01/31/06

AGENDA ITEM \_\_\_\_\_

WORK SESSION ITEM 26

**TO:** Mayor and City Council

**FROM:** Acting Director of Finance and Internal Services

**SUBJECT:** Mid -Year Budget Review

#### **RECOMMENDATION:**

It is recommended that the Council review and comment on this report.

#### **BACKGROUND:**

This report reviews General Fund actual financial results for 2004-05 and the status of the General Fund at the mid-year point for 2005-06. The report begins with an analysis of fiscal year 2004-05 and how the results for the year impact the current budget. Following that discussion is a review of the General Fund budget at the mid-year for 2005-06.

##### **Fiscal Year 2004-05**

Last Spring, when the recommended 2005-06 budget was presented to the City Council, staff estimated that the General Fund would break even for fiscal year 2004-05. The books for 2004-05 have been closed and staff is pleased to report that the City ended the year with a positive balance. For the year ended June 30, 2005 total General Fund Revenues and Transfers were approximately \$97.6 million. Expenditures and Transfers totaled approximately \$96.4 million, resulting in an increase to reserves of \$1.2 million. There are two components to this amount, however. The first is of a one-time nature, the second represents ongoing operations. More specifically, approximately \$880,000 is a result of a reduction of the General Fund's accrued liability for vacation and sick leave, a GASB34 reporting requirement. The second component, approximately \$307,000, is from ongoing General Fund revenues and expenditures.

The excess of revenues over expenditures of \$1.2 million for 2004-05 has a positive impact on the General Fund's fund balance. The Undesignated Fund Balance at June 30, 2005 stood at approximately \$7 million, representing a net increase of \$1.3 million over the 2003-04 balance. This increase is a result of the positive adjustment of \$1.2 million noted above, plus other minor adjustments for items such as encumbrances and inventory.

##### **Fiscal Year 2005-06**

Staff has analyzed General Fund revenues and expenditures for 2005-06 through December 31, 2005 and is recommending changes in three revenue projections: Property Tax, Real Property

Transfer Tax and Vehicle License Fee revenues. The revision to Property Tax is downward from budget while the other two revenues are being adjusted upwards. The adjustments consist of a reduction of \$152,000 in Property Tax and increases of \$790,000 and \$2.3 million to Real Property Transfer Tax and VLF respectively. There is another revenue issue, which staff is not adjusting for in the revenue section but does impact sales tax revenue for the year.

At the Budget and Finance Committee meeting of December 13, staff reported to the Committee that the State had made overpayments of Sales Tax "backfill" payments, state-wide, of approximately \$173 million. As Council will remember, the passage of several state-wide propositions in 2004 and the California 2004-05 Budget gave rise to major revenue issues for local government. More specifically, .25% of the local sales tax was diverted to the State to repay Economic Recovery Bonds. The loss of revenue at the local level was made up in the State Budget by the payment of additional property tax revenue or "backfill" payments to local agencies. In theory local agencies will receive all revenue that would have been received "pre-backfill".

To the extent that the State's estimate is too high or too low, the backfill payments are adjusted in the subsequent year. The State has indicated an overpayment to local agencies totaling \$173 million, with Hayward's share equal to \$1.3 million for fiscal year 2004-05. This overpayment must be repaid this year. Because of the size of the adjustment staff is showing this repayment as a separate line item in the expenditure section of Schedule A.

When the Council adopted the budget for 2005-06 it authorized the use of approximately \$2.1 million in contingency funds to balance the budget. Based on staff's revised estimates it now appears that the use of these funds will be reduced to approximately \$548,000, even after taking into account the \$1.3 million payback to the State.

## **Revenues**

The schedule below is the Revenue section of Attachment Schedule A. The Actual 2004-05 column presents prior year actual information for reference and comparison purposes. The Adjusted Budget 2005-06 column is the adopted budget with any Council authorized changes through December 31, 2005. The estimated 2005-06 column is staff's estimate based on updated information through December 31, 2005. The Variance column indicates the differences, positive and negative, between the Adjusted Budget and the Estimated columns.

The first revenue estimate concerns Property Tax. This estimate is based on the County's most recent revenue estimates for Hayward for fiscal year 2005-06 and Property Tax revenue received to date. Based on this information, staff is of the opinion that actual revenue for 2005-06 will fall slightly short of budget. Consequently, staff has reduced this estimate from approximately \$20.7 million to \$20.5 million.

The next revenue category is Real Property Transfer Tax. This tax is collected on all real estate transactions closing in the City and directly reflects both the number of real estate sales that are taking place and the value of the property being sold. The current year's estimates takes into account both total revenue remitted to date and the monthly remittance pattern. Consequently,

based on revenue collected through December 31, staff is increasing the estimate for this revenue from \$7.7 million to \$8.5 million.

	Actual 2004-05	Adjusted Budget 2005-06	Estimated 2005-06	Variance Positive (Negative)
<b>REVENUES</b>				
Property Tax	18,860	20,652	20,500	(152)
Sales Tax				
Sales Tax Revenue	20,905	20,471	20,471	
State Backfill	6,250	6,824	6,824	
Total Sales Tax	27,155	27,295	27,295	
Real Property Trsf. Tax	9,726	7,710	8,500	790
Emergency Facilities Tax	1,683	1,700	1,700	
Bldg. Const. & Imp. Tax	843	1,200	1,200	
All Other Taxes	3,536	3,300	3,300	
Franchises	6,624	6,883	6,883	
Licenses & Permits	3,199	3,491	3,491	
Interest & Rents	430	561	561	
Fines & Forfeitures	1,778	1,232	1,232	
Vehicle License Fee				
Vehicle License Fee Revenue	9,336	8,463	10,478	2,015
Vehicle License Fee Gap Loan Repayment		2,200	2,454	254
Total VLF	9,336	10,663	12,932	2,269
All Other From Agencies	3,174	2,913	2,913	
Fees and Service Charges	3,004	2,493	2,493	
Other Revenue	3,025	2,887	2,887	
<b>Total Operating Revenue</b>	<b>\$ 92,373</b>	<b>\$ 92,980</b>	<b>\$ 95,887</b>	<b>\$ 2,907</b>

Based on legislation passed in 2004, the method for calculating VLF revenue changed from a basis using city population and the number of vehicle registrations to a basis using property tax assessed valuation, for the most part. Based on the growth of Hayward's assessed valuation the County has provided the City with a preliminary "backfill" amount to 2005-06 of approximately \$9 million. The backfill amount coupled with the true VLF component results in a revised VLF revenue budget of \$10.5 million, an increase of some \$2 million. In addition, the City received the full amount of the VLF gap loan, which is \$2.5 million. This represents an increase of nearly \$300,000.

By way of background, the State was not required to repay the VLF GAP Loan to Cities until August 15, 2006, however, the State decided to repay cities in July 2005. When the Council adopted the 2005-06 budget the Council authorized as part of the Budget the sale of the City's receivable. The \$254,000 cost of selling the City's receivable was avoided by the State's action. Staff is increasing VLF revenue to recognize this savings.

As noted earlier, the State is requiring a \$1.3 million refund of sales tax revenue due to a State overpayment. To track this repayment staff is presenting the repayment in the staff report as a line item expenditure on Schedule A. This will allow the City to easily track the amount of the repayment and to provide for comparable sales tax revenue amounts for future years. Also it is important to note that the General Fund's Undesignated Fund Balance is sufficient to absorb this reduction.

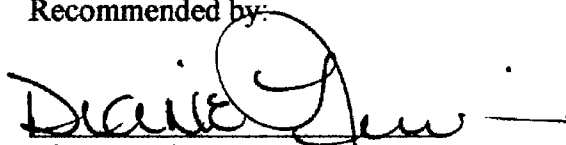
## Expenditures

	Actual 2004-05	Adjusted Budget 2005-06	Estimated 2005-06	Variance Positive (Negative)
<b>Expenditures</b>				
Employee Services	\$ 80,631	\$ 84,574	\$ 84,574	\$ -
Maintenance & Utilities	4,385	3,900	3,900	\$ -
Supplies and Services	10,143	9,901	9,901	\$ -
Capital Expense	298	225	225	\$ -
Net Interdept. Charges (Credits)	(4,171)	(3,694)	(3,694)	\$ -
	<u>\$ 91,286</u>	<u>\$ 94,906</u>	<u>\$ 94,906</u>	<u>\$ -</u>

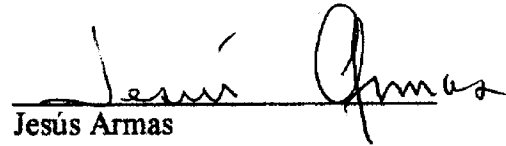
As can be seen from the schedule above expenditures are expected to meet budget for 2005-06. Through December 31, Employee Services were at 50%, on schedule with a time elapsed percentage of 50%. The expenditure categories of Maintenance and Utilities and Supplies and Services were at 46% and 45% respectively. In view of historical expenditures patterns staff anticipates that these categories will not exceed budget for the fiscal year. Finally, Capital Expenses and Net Interdepartmental Charges (Credits) are on target for the year. Consequently, staff is recommending no change to budget expenditures for 2005-06.

In summary, the City's General Fund is seeing the positive impact of revenue diversity, a strong real estate market and costs that are under control. These factors are allowing staff to revise the General Fund budget from one that originally contemplated a revenue shortfall of approximately \$2.1 million to reflect a revenue short fall in the amount of approximately \$.5 million, even after taking into account the fact that the City has had to absorb a \$1.3 million repayment to the state for sales tax. This repayment is a one-time event, however, and does not require any budget adjustments.

Recommended by:

  
Diane Lewis  
Acting Director of Finance and Internal Services

Approved by:

  
Jesús Armas  
City Manager

Attachment: Schedule A

**City of Hayward**  
**General Fund**  
**Schedule of Revenues and Expenditures**  
**General Fund - 2005-06**

**Schedule A**

(\$ In 000's)

	<b>Actual 2004-05</b>	<b>Adjusted Budget 2005-06</b>	<b>Estimated 2005-06</b>	<b>Variance Positive (Negative)</b>
<b>REVENUES</b>				
Property Tax	18,860	20,652	20,500	(152)
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Fees and Service Charges	3,004	2,493	2,493	-
Other Revenue	3,025	2,887	2,887	-
<b>Total Revenue</b>	<b>92,373</b>	<b>92,980</b>	<b>95,887</b>	<b>2,907</b>
Recurring Transfers In	5,246	5,131	5,131	-
Public Safety Radio Reserve		1,600	1,600	-
<b>Total Resources</b>	<b>97,619</b>	<b>99,711</b>	<b>102,618</b>	<b>2,907</b>
<b>EXPENDITURES</b>				
Employee Services	80,631	84,574	84,574	-
Maintenance and Utilities	4,385	3,900	3,900	-
Supplies and Services	10,143	9,901	9,901	-
Capital Expense	298	225	225	-
Net Interdept. Charges (Credits)	(4,171)	(3,694)	(3,694)	-
Operating Expenditures	91,286	94,906	94,906	-
Recurring Transfers Out	5,145	6,938	6,938	-
<b>Total Expenditures</b>	<b>96,431</b>	<b>101,844</b>	<b>101,844</b>	<b>-</b>
Excess of Revenue (Expenditures)	1,188	(2,133)	774	2,907
Sales Tax Repayment			(1,322)	(1,322)
Net Revenue (Expenditure)	1,188	(2,133)	(548)	1,585
Use of Contingency Reserve		2,133	548	(1,585)
<b>Excess of Revenues/Reserves (Expenditures)</b>	<b>1,188</b>	<b>-</b>	<b>-</b>	<b>-</b>